

## Message Text

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C O N F I D E N T I A L BUDAPEST 3819

FOR ASSISTANT SECRETARY STOESSEL FROM AMBASSADOR PEDERSEN

E.O. 11652: GDS

TAGS: OVIP (KISSINGER, HENRY A.)

SUBJECT: EUROPEAN CHIEFS OF MISSION MEETING: PERSONAL  
ASSESSMENT BY AMBASSADOR

REF: BUDAPEST 3380 STATE 231853

MY ASSESSMENT OF CURRENT STATUS OF US-HUNGARIAN RELATIONS  
SHOULD BE REVISED TO READ AS FOLLOWS. THE REASONS FOR THE  
CHANGES SHOULD BE SELF-EXPLANATORY.

1. US-HUNGARIAN RELATIONS HAVE BEEN AT THEIR BEST LEVEL  
IN 1973 SINCE 1949. ALTHOUGH LITTLE PROGRESS IS DIS-  
CERNABLE ON FOREIGN POLITICAL POLICY MATTERS, IN ECONOMIC  
RELATIONS AND IN OVERALL RELATIONSHIPS THE IMPROVEMENTS  
THAT BEGAN IN 1972 ARE CONTINUING. DURING MY CALLS ON  
THEM THIS FALL THE MORE IDEOLOGICALLY MINDED, AS WELL AS  
THE MOST PRAGMATIC, GOVERNMENT LEADERS ALL STRESSED  
THEIR DESIRE FOR THIS PROCESS TO BE PURSUED.

2. HUNGARIAN INTEREST IN BETTER RELATIONS WITH US  
ARE EXPRESSED MAINLY IN A DESIRE FOR INCREASED TRADE,  
ESPECIALLY IN INCREASED JOINT PRODUCTION AND COOPERATIVE  
VENTURES. THEY NEED TO MODERNIZE THEIR ECONOMIC PLANTS-  
BOTH IN AGRICULTURE AND INDUSTRY - IN ORDER TO COMPETE ON  
WORLD MARKETS. ABOUT 40 PERCENT OF THEIR PRODUCTION IS  
EXPORTED, AND THEY ARE HIGHLY CONSCIOUS OF THE NEED TO  
BE TECHNOLOGICALLY COMPETITIVE. THEY KNOW THAT THE  
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UNITED STATES IS THE BEST SOURCE OF MODERN TECHNOLOGY

AND THEY WANT ONLY THE BEST.

3. MFN IS THEIR NUMBER ONE PRIORITY IN THEIR RELATIONS WITH US. THEY WANT MFN BECAUSE IT WILL MAKE EXPORTING TO THE UNITED STATES EASIER, AND BECAUSE IT WILL LOWER THE IMPORT COST OF US TECHNOLOGY. PERHAPS EVEN MORE THEY WANT IT FOR PSYCHOLOGICAL REASONS. (THEY ALWAYS REFER TO IT AS "DISCRIMINATION".) TO OBTAIN MFN THEY WILL MAKE CONCESSIONS TO PERMIT EASIER CONDUCT OF US BUSINESS HERE WHEN WE ARE IN A POSITION TO NEGOTIATE. HUNGARY REACTED MILDLY BUT WITH DISAPPOINTMENT TO THE DELAY IN A CONGRESSIONAL DECISION ON MFN. MEANWHILE OUR TRADE (THOUGH LOW) CONTINUES TO GROW. THE TWO-WAY TRADE IN 1972 WAS ABOUT \$35 MILLION. IN 1973 IT WILL EXCEED \$60 AT ABOUT A TWO-TO-ONE RATIO IN OUR FAVOR. IF WE ARE NOT ABLE TO EXTEND MFN TO THEM NEXT I BELIEVE TRADE WILL STILL INCREASE (THOUGH NOT AS FAST), BUT THAT THEIR DISAPPOINTMENT WILL RESULT IN A SLOW DOWN IN THE IMPROVEMENT OF OUR GENERAL RELATIONS AND IF CURRENTLY SUBMERGED PROBLEMS BECOMING MORE DIFFICULT. IF MFN IS TO BE LONG DELAYED WE MAY WANT TO THINK OF EXTENDING EX-IM CREDITS IN THE CONTEXT OF A BOND HOLDERS SETTLEMENT.

4. HUNGARY HAS THE MOST MARKET-AND CONSUMER-ORIENTED ECONOMIC POLICY IN THE WARSAW PACT, AND IT PERMITS ITS PEOPLE THE WIDEST ACCESS TO WESTERN INFLUENCES. IT ALSO IS AN ADVOCATE OF MORE LIBERALIZED ECONOMIES ELSEWHERE WITHIN THE PACT. THIS PIONEERING ROLE IN ECONOMIC REFORMS WHICH WOULD BE BENEFICIAL TO THE PEOPLE WITHIN EASTERN EUROPE AS WELL AS TO OUR BILATERAL RELATIONSHIPS WITH THEM IS HUNGARY'S MAIN CLAIM TO SYMPATHETIC ATTENTION FROM US.

5. IN FOREIGN POLITICAL POLICY HUNGARY ADHERES SCRUPULOUSLY TO SOVIET POSITIONS. THEY CLEARLY BELIEVE THIS GIVES THEM GREATER INTERNAL AUTONOMY. (WHEN ASKED BY A BRITISH MINISTER OF STATE RECENTLY WHY THERE WERE NOT MORE FRIENDLY TO THE WEST POLITICALLY AS WELL AS ECONOMICALLY, ONE OF THE COUNTRY'S DEPUTY PRIME MINISTERS COMMENTED THAT THEY KNEW THE LENGTH OF THEIR

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OWN SHADOWS). HUNGARY IS SOMETIMES "MORE PAPAL THEN THE POPE" IN SUPPORTING ASPECTS OF SOVIET POLICY THAT NEGATIVELY AFFECT US, A TENDENCY AGAINST WHICH THE EMBASSY IS EXERTING INFLUENCE. ON THE OTHER HAND THEY PAY CLOSE ATTENTION TO US DIPLOMACY AND REPORT A SUBSTANTIAL AMOUNT OF IT TO THEIR PEOPLE. AFTER PROVIDING A PLATFORM FOR SOVIET SUPPLY FLIGHTS TO THE MIDDLE EAST AND TAKING AN INITIALLY STRONG PRO-ARAB POSITION, FOR EXAMPLE, THEY HAVE GIVEN MUCH MORE

PUBLIC ATTENTION TO SECRETARY KISSINGER'S PEACE EFFORTS  
THAN THE SOVIET UNION HAS AND HAVE APPLAUDED THE CEASE-  
FIRE AND THE FORTHCOMING NEGOTIATIONS AS BENEFICIAL RESULTS  
OF DETENTE.

6. ASIDE FROM ECONOMIC RELATIONS THE CROWN OF ST.  
STEPHEN AND THE HUNGARIAN ATTITUDE IN THE ICCS ARE THE  
MOST PROMINENT ISSUES IN OUR RELATIONSHIPS. AT THIS  
POINT THE CROWN IS SECONDARY TO MFN IN THEIR PRIORITIES.  
BUT IT IS OF SUFFICIENT EMOTIONAL IMPORTANCE THAT ITS  
RETURN IS THE ONLY OTHER ISSUE THAT THE PRIME MINISTER  
HAS RAISED WITH ME. ONCE WE HAVE A TRADE AGREEMENT THEY  
WILL CERTAINLY EXPECT IT BACK; IF THERE IS AN UNDUE SETBACK  
(LONGER THAN NEXT SUMMER) IN MFN THEY MAY ALSO BEING THE  
CROWN ISSUE TO THE FORE.

7. WE WILL CONTINUE TO HAVE DIFFICULTIES WITH THEIR  
ROLE IN THE ICCS. THEIR POLICY APPROACH IS TO SAY THAT  
THIS ISSUE SHOULD BE DIVORCED FROM THE IMPROVEMENT OF OUR  
BILATERAL RELATIONS. I HAVE MADE IT CLEAR THAT VIETNAM  
IS OF DIRECT INTEREST TO THE UNITED STATES AND THAT WHAT  
THEY DO THERE CANNOT FAIL TO BE TAKEN INTO ACCOUNT BY US.  
THE EMBASSY IS SEEKING TO PUSH THEM INTO A LESS ACTIVE  
POSTURE IN VIETNAM POLICY AND A LESS BIASED ONE IN THE  
ICCS THAN IN THE PAST. WE SHOULD CONTINUE TO HOLD THEM  
ACCOUNTABLE FOR THEIR ROLE IN THE ICCS, IN WHICH THEY ARE  
UNCOMFORTABLE, WHILE RECOGNIZING THAT THEY WILL NEVER BE  
MORE IMPARTIAL THAN THE USSR WANTS THEM TO BE.

8. WE ARE ALSO CURRENTLY ENGAGED IN SLOW-MOVING  
CONSULTATIONS ON A CULTURAL AND SCIENTIFIC AGREEMENT. WE  
WILL ULTIMATELY ACHIEVE THIS, THOUGH THEY WILL PROBABLY DELAY  
ITS COMPLETION UNTIL WE GIVE THEM MFN, AND THOUGH THERE  
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WILL BE PROBLEMS IN NEGOTIATING PROVISIONS IN THE INFOR-  
MATION FIELD.  
PEDERSEN

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